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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday August 31, 1976 CI NIDC 76-205C

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NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Tuesday, August 31, 1976.

The NID Cable is for the purpose of informing senior US officials.

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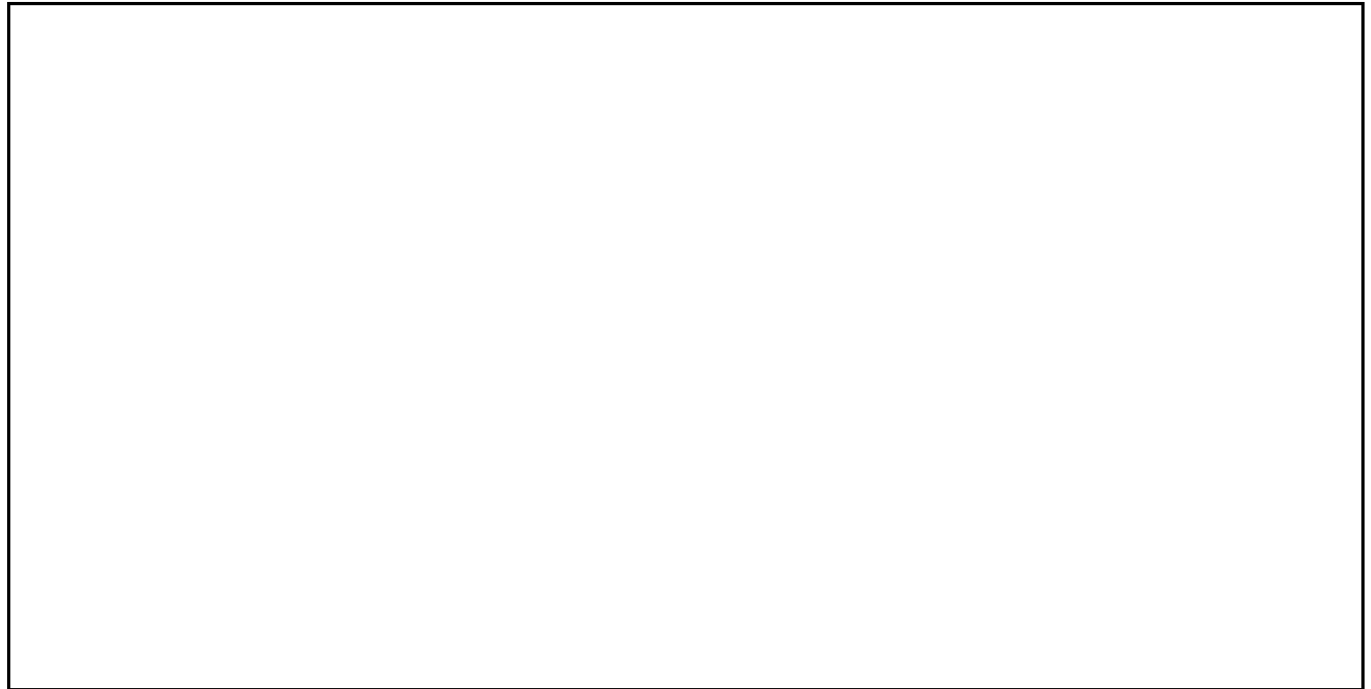
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LEBANON: Situation Report

25X1 [] Arab League mediator Hasan Sabri al-Khuli returned from Damascus to Cairo yesterday, presumably to consult with Arab League officials on the status of the peace plan he has been pushing for the past week.

25X1 [] According to press accounts, the plan provides for mutually balanced withdrawals from the Mount Lebanon area by both the Palestinians and the Christians--a provision that the Christians are unlikely to accept, although they have held off any final answer pending a Syrian response.

25X1 [] Two Lebanese newspapers have reported that the Christian Phalangists and the Palestinians have agreed on a local cease-fire in the Mount Lebanon area, regardless of what happens on other fronts. Even if the two sides are serious about such an arrangement, they will be hard put to implement it if extremists on either side are interested in escalating the fighting.

- 25X1 [] According to the Cairo press, 12 Arab League countries--one more than the necessary majority--have officially indicated their willingness to attend an emergency summit meeting.
- 25X1 [] The League has nevertheless moved back to September 4 the foreign ministers' meeting that is to prepare the summit agenda and set a time and place. An Arab League spokesman said, without elaborating, that the shift was made at the request of "some" Arab countries.
- 25X1 [] A communique from the Palestinian Political Council has been published requiring all Palestinian males between 18 and 30 to report for mobilization by today. This move is in effect an acknowledgment by the Palestinians of their difficult military position. Conscription could reinforce Palestinian ranks, but only with ill-trained and less effective soldiers.
- 25X1 [] The Palestinians may be hoping in part that the announcement will persuade the Christians they are ready to fight in the Mount Lebanon area if current negotiations to arrange a withdrawal fall through.
- 25X1 [] There was fresh fighting yesterday around the northern port of Tripoli, where Syrian and Christian forces are tightening their siege of the city. The Syrians are reported to have established checkpoints on all roads north of the city, with the Syrian navy stopping fishing vessels off the coast.
- 25X1 [] Although Syrian forces north of the city are apparently not advancing, Christian forces have been involved in heavy fighting to the east and south. The Palestinians and leftists are claiming to have repelled Christian attacks near Alma and Bayt Awkar.
- 25X1 [] In Beirut, clashes occurred yesterday in the commercial area, and there were reports of shelling along the usual confrontation lines, particularly in the suburb of Ayn Rummanah. Artillery fire was exchanged in the mountains to the east; the leftists say they pushed back a Christian infiltration attempt near Biskinta.

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25X1 [] The Syrians also seem to be reinforcing their positions near Jazzin. Syrian artillery fire on Palestinian and leftist villages in the area is continuing, and they have now occupied the village of Suhmur. Leftists assert they have blocked a Syrian attempt to enter the village of Rum.

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KOREA: Fishing Boat Seizure

25X1 [] North Korea is playing down the seizure yesterday of a South Korean fishing boat. The North Korean news agency described the boat merely as an "unidentified ship" that intruded into the North's coastal waters.

25X1 [] The North Koreans, at least initially, have apparently decided that this incident does not lend itself to exploitation as another "war provocation" by South Korea and the US.

25X1 [] North Korea normally detains captured South Korean boats and crews at least for several months. The captain of the last South Korean fishing boat seized, in February 1974, was charged with spying and forced to sign a "confession," which was broadcast by Pyongyang radio.

25X1 [] The seizure of the boat has had no effect on the current talks at Panmunjom, but South Korea may at least urge the US to suspend consideration of North Korean proposals regarding the Joint Security Area until the boat and crew are returned.

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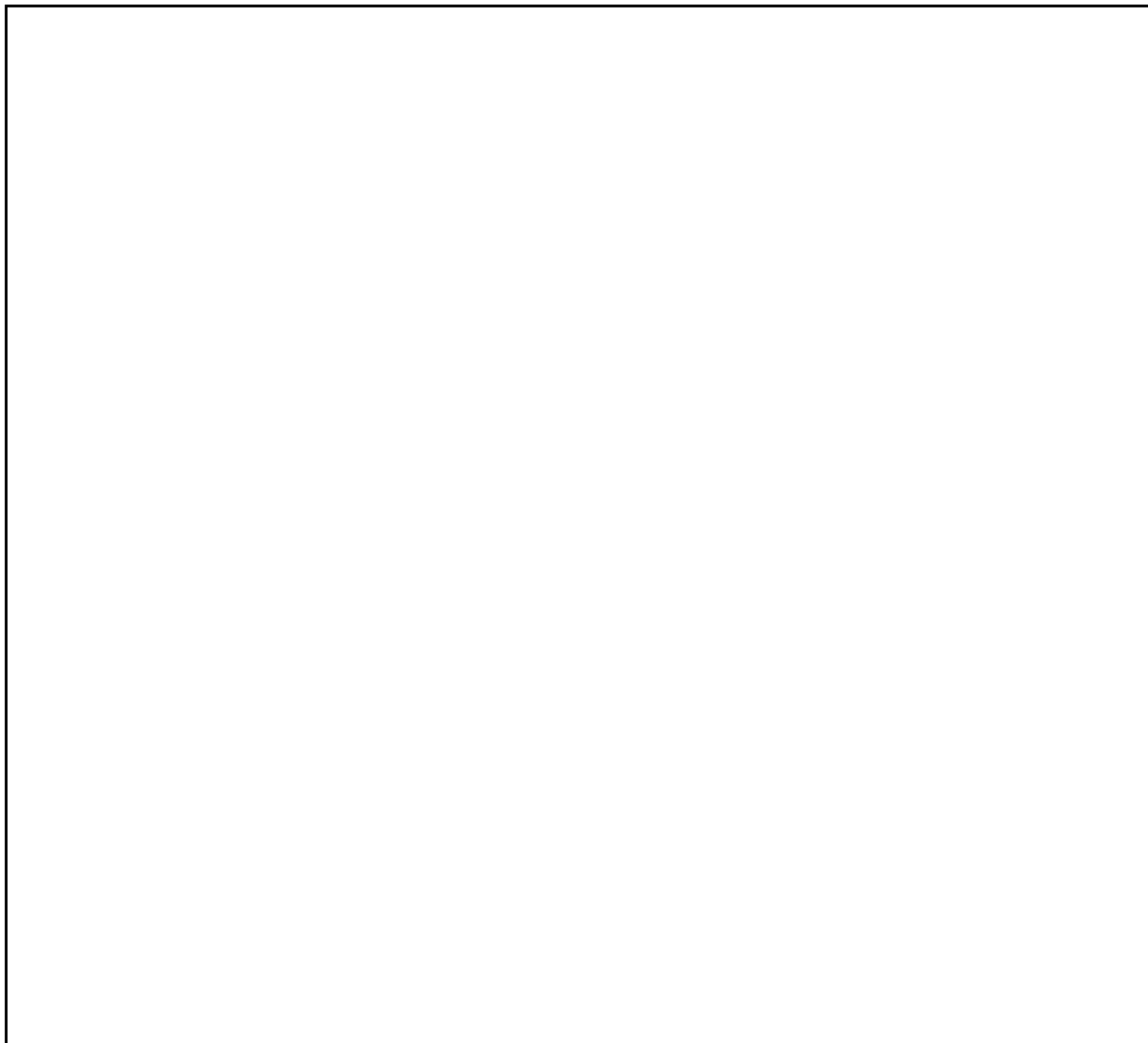
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USSR: Samotlor Oil Field

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The life expectancy of the USSR's Samotlor oil field, its largest producer, may be shorter than had been previously expected.

25X1 [] During a recent visit to the US, a delegation of the Soviet Ministry of the Petroleum Industry intimated that the water-injection technique currently being used at that field to maintain field pressure has resulted in an increased percentage of water in the oil, thereby adversely affecting the flow of oil. The delegation further suggested that the Samotlor wells probably would never flow properly again.

25X1 [] The group expressed great interest in obtaining equipment and technology for a major gaslift project at Samotlor, implying that the Soviets feel an urgent need to consider supplementary recovery techniques if the field's large reserves are to be efficiently exploited. Gaslift is an effective technique for extracting oil by injecting pressurized gas into the well casing to force out the oil more rapidly.

25X1 [] The Samotlor oil field, in the sub-Arctic region of western Siberia, was discovered in 1965 and has become an increasingly important source of Soviet oil. In 1975, it accounted for 18 percent of Soviet petroleum production and was largely responsible for the increase in overall Soviet output. The field's anticipated output in 1976 is 110 million tons and, at current growth rates, would probably stabilize at 130 million tons after 1978. It has an estimated 2.1 billion metric tons of reserves.

25X1 [] Any failure of Samotlor to meet its production goals would have serious consequences for Soviet energy planning, including the intended export of oil as an important source of foreign exchange.

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25X1 [] The gaslift project outlined by the Soviet delegation is probably the largest of its kind contemplated anywhere in

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the world; it would cost approximately \$400 million to \$500 million, of which \$120 million would be allocated for gas compressors alone.

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[] In view of increasing water content in the output of Samotlor and other newly developed Soviet oil fields in western Siberia, the Soviets will undoubtedly now consider the gaslift method where gas is available. []

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USSR-SPAIN: Soviet Commentary

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[] Recent Soviet assessments of developments in Spain have been less negative than in the months immediately following Franco's death. The Soviets now portray the situation as heading in the right direction, with "democratization" spreading throughout Spanish society.

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[] Earlier this year Moscow had indicated disappointment with the pace of liberalization and had tended to emphasize the political continuity with the Franco past. The Soviets had some unkind words for King Juan Carlos, but they were careful not to go as far as Spanish Communist Party leader Carrillo did in charging that the government was still Francoist.

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[] One reason the Soviets may have moderated their line is that, despite objections from the Spanish Communists, they are interested in establishing diplomatic relations with Spain, particularly since China maintains an embassy in Madrid.

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[] Spain has been considering diplomatic recognition of the USSR, but sees no urgency in moving ahead. Contacts with the USSR take place through the Soviet commercial delegation, headed by a diplomat with the rank of ambassador.

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[] The Spaniards seem reasonably content with this relationship, but the Soviets have asserted that full diplomatic relations would lead to increased economic benefits.

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[] Even in the absence of diplomatic relations, Soviet trade and economic relations are progressing favorably, and an air agreement was signed in May; the first Aeroflot flights from Moscow to Madrid began in July. []

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CHILE: Economic Picture

- 25X1 [] Higher world copper prices have eased Chile's balance-of-payments deficit and allowed the military government to focus on the priority problems of economic depression and triple-digit inflation.
- 25X1 [] Last year, in the face of plummeting copper prices, the government imposed a drastic austerity program to cut imports and balance its international accounts. The austerity program had a devastating effect on the domestic economy into the first half of this year.
- 25X1 [] Chile will use most of the gain from higher copper earnings to meet its scheduled foreign debt payments this year. For the first time since 1971 it will not resort to debt renegotiation.
- 25X1 [] The government continues to rely mainly on the free market and private enterprise in its efforts to resolve its economic difficulties. Import incentives--particularly an 11-percent revaluation of the peso in June--should sharply increase foreign purchases from depressed first-half levels.
- 25X1 [] Improved import conditions, combined with lower taxes and incentives for new investment, will probably succeed in increasing industrial production during the remainder of this year. Even so, both imports and industrial production will remain below 1974 levels.
- 25X1 [] With increased production, inflation should fall to about 180 percent this year, down from 341 percent in 1975. In addition, businessmen have promised to restrain price increases; slower growth in the money supply and more favorable prices for imported goods resulting from the new exchange rate policy will also reduce inflationary pressures.
- 25X1 [] We expect increasing industrial and mining production to result in growth of about 5 percent in real gross national product in 1976, compared with the staggering 15-percent decline last year. Agricultural production, which has stagnated because of a shortage of imported fertilizers and pesticides, will not benefit from the new policies until 1977. []

VENEZUELA: Large Foreign Borrowing

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[] Several US and European banks are competing for a chance to lend Venezuela \$1 billion, the first tranche in a foreign borrowing program that could total \$8.5 billion by 1980.

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[] Recently enacted legislation covering the financing for Venezuela's Fifth National Development Plan specifies that \$4.5 billion needed for new development programs is to be borrowed from foreign sources. Autonomous government agencies will be authorized to borrow an additional \$1 billion. Because of the limited local capital market, most of the loans are likely to be placed abroad.

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[] The Venezuelan Investment Fund is to provide \$5 billion for development projects. We expect that \$3 billion of this amount will probably be borrowed abroad to minimize the risk to Venezuelan foreign exchange reserves--more than half of which are held by the Fund.

[] Venezuela is having little trouble attracting lenders because of its small foreign debt and continuing large oil export earnings.

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[] Actual borrowing may be substantially less than the amount authorized. Venezuela's development plan calls for public investments totaling \$27.7 billion in petroleum, petrochemicals, metals, and public construction projects, but limited administrative resources probably will delay implementation of many projects.

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ARGENTINA-USSR: Wheat Purchases

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[] According to a Buenos Aires economic journal, the USSR has offered to buy Argentine wheat surpluses for the next 10 years at "prices adjustable to the world situation."

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[] Official Argentine sources have denied that any contracts have been signed. The Soviets will need wheat imports for the foreseeable future and may be interested in long-term contracts.

25X1 [] Argentina should have ample supplies of wheat for export. Domestic requirements are likely to remain under 5 million tons and the harvest this fall could reach 10 million tons if weather remains favorable.

25X1 [] Moscow bought 739,000 tons--about half of all Argentine wheat exports--in 1975 and has purchased 719,000 tons so far this year. It has become the second-largest customer for Argentine goods, trailing Italy in 1975 and Brazil in the first quarter of 1976. The USSR exports little to Argentina.

25X1 [] Although the Argentine government no longer directly controls grain sales, the strongly anti-communist military regime probably would urge trading companies not to sign long-term, large-scale contracts with the USSR if purchasers more ideologically compatible were available. The government almost certainly would insist on cash sales.

25X1 [] If the Soviets are prepared to buy on a large scale, they are likely to pressure Buenos Aires to buy more Soviet goods to help balance bilateral trade. The USSR has sold Argentina power-plant equipment and would like to sell more heavy machinery. The Argentines prefer US and West European equipment on technical grounds, but might consider a wheat-for-equipment barter arrangement, particularly if the USSR offered good terms.

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CUBA: Sugar Production Down

25X1 [] Reduced earnings from sugar exports will help push Cuba's trade deficit to more than twice the level of 1975.

25X1 [] We estimate Cuba's sugar production from the 1976 harvest at 6.0 million tons--7 percent below last year and only slightly higher than 1974. Cane production remained stable, but sugar content declined as a result of a prolonged drought that delayed planting and because of abnormally heavy rains during the harvest.

25X1 [] The drop in sugar output was held to a minimum by improved harvesting and transporting of the cane to the mills. Approximately one third of the crop was harvested mechanically, compared with one quarter in 1975.

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[] The reduced sugar harvest, coupled with lower world sugar prices, should cut total export earnings this year by 11 percent to about \$3 billion. With imports increasing, we expect the total trade deficit to exceed \$850 million. The deficit with non-communist countries should rise 10 percent to \$770 million, despite an expected 10- to 15-percent decline in the value of imports from the West.

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[] The trade deficit underscores Cuba's continuing dependence on massive foreign economic assistance despite the brief respite caused by soaring world sugar prices in 1974. In addition to an estimated \$1.2 billion in Soviet subsidies for sugar and petroleum, Havana will need \$90 million in communist trade credits and \$220 million in hard currency balance-of-payments support from Moscow. Drawings of \$550 million in Western trade credits will cover the remaining deficit. []

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